

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair



Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

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Thursday, April 3, 2003
Upon Conclusion of Senate Floor Session
Room 4203

AGENDA

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0559 Secretary for Labor and Workforce Development Agency

Description: The Secretary is a new cabinet-level appointment authorized by SB 1236 (Alarcón), effective January 1, 2003. The Secretary is appointed by the Governor and subject to conformation by the Senate. The Secretary is responsible for coordinating and enforcing labor in the state.

SB 1236 also created the Labor and Workforce Development Agency, which consists of the Department of Industrial Relations (DIR), Employment Development Department (EDD), Agricultural Labor Relations Board (ALRB), and Workforce Investment Board (WIB). The bill specifies that funding for the agency come from the reallocation of existing resources allocated to the various entities prior to formation of the agencies. No funds may be reallocated from the Agricultural Labor Relations Board. It also specifies that no appropriation of new General Fund moneys would be permitted to implement the bill.

Purpose: The agency is responsible for overseeing and coordinating the policies, activities and budgets for the state's labor and employment programs.

The authorizing statute did not change or modify the basic structure or management of the departments and boards placed within the agency. To consider possible statutory or administrative changes to the departments and boards, the Governor established a Workforce Development Review and Reform Taskforce. The taskforce gathered citizen input through its web site. The taskforce is considering – and has invited comment on – the following five preliminary recommendations:

- Develop a stronger and more coordinated workforce development effort across state agencies.
- Include all workforce preparation programs in the Performance Based Accountability system.
- Focus on workforce preparation for adults.
- Improve service delivery integration at the One Stop Service Delivery Centers.

Question from committee:

What has been the progress to date of the Workforce Development Review and Reform Taskforce?

Governor's Budget: The budget proposes an appropriation of \$2.3 million for the first year of the agency. The agency has 16 personnel years.

Update on Start-Up. The agency began functioning under the terms of the Governor's Reorganization Plan Number 1 (2002) on July 2, 2002. As such, the secretary and his staff will have had some experience running the agency. An acting secretary has been appointed. However, according to the Rules Committee, the Governor's office has not announced a candidate for Senate confirmation.

Questions from subcommittee:

- What are the agency's plans for meeting its statutory duties and responsibilities? How does the agency expect to measure its performance in meeting its statutory duties and responsibilities?
 - The agency has been functioning for almost a year. Most new agencies and departments need statutory changes after it has had some experience managing its programs. Will the department need changes to its statutory authority?
 - When does the Administration expect to nominate a secretary for consideration by the Senate?
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7100 Employment Development Department

Description: The Employment Development Department (EDD) links employers and job seekers. The department provides services through four main functions: (1) employment-related services; (2) tax collections and benefit payments; (3) employment training programs; and (4) Workforce Investment Act activities.

Purpose: The Employment Development Department (EDD) is responsible for administering the Employment and Employment Related Services (EERS), the Unemployment Insurance (UI), and the Disability Insurance (DI) programs. The department collects taxes and pays benefits under the UI and DI programs. The department collects from employers (1) their UI contributions, (2) the unemployment Training Tax, and (3) employee contributions for DI. EDD also collects personal income tax withholding and pays UI and DI benefit to eligible claimants. Pursuant to Chapter 859, Statutes of 2002 (SB 1236, Alarcón), which implemented the Governor's Reorganization Plan Number 1, the EDD is part of the new Labor and Workforce Development Agency.

Governor's Budget: The Governor proposes a budget of \$10.6 billion (\$21.5 million General Fund), a decrease of 17.9 percent from the current year. This decrease primarily results from the expectation that costs associated with extended benefits under the unemployment insurance program in 2002-03 will not occur in 2003-04.

Summary of Expenditures				
(dollars in thousands)	2002-03	2003-04	\$ Change	% Change
General Fund	\$22,898	\$21,550	(\$1,348)	-5.8
Benefit Audit Fund	0	0		
EDD Contingent Fund	18,751	17,888	(\$863)	-4.6
Employment Training Fund	83,867	75,313	(\$8,554)	-10.1
Welfare to Work Fund-Federal	3,608	0	(\$3,608)	-100.0
Disability Fund	3,472,701	3,590,935	\$118,234	3.4
Consolidated Work Program Fund	631,931	582,166	(\$49,765)	-7.8
Unemployment Administration-Federal	618,659	602,316	(\$16,343)	-2.6
Unemployment Fund-Federal	7,998,753	5,662,509	(\$2,336,244)	-29.2
School Employees Fund	84,416	57,560	(\$26,856)	-31.8
Reimbursements	24,928	25,040	\$112	.4
Total	\$12,960,512	\$10,635,277	(\$2,325,235)	-17.9

INFORMATION ITEMS

Disability Program

California's Disability Insurance program is a worker funded program to provide benefits to eligible workers suffering a loss of wages when they are unable to perform their usual work because of non-occupational illness, injury or pregnancy. The increases are based on workload estimates.

School Employees Unemployment Caseload

The School Employees Fund is a joint, pooled-risk fund administered by EDD for unemployment insurance benefits for employees of public schools and community college districts.

Unemployment Insurance Appeals Board

The budget proposes an increase of \$283,000 Unemployment Compensation Disability Fund and 4.2 personnel years for Disability Insurance workload increase. The Board provides administrative review for beneficiaries or employers who appeal a decision made to approve or deny unemployment and disability insurance. These increases are parallel to the increases for Unemployment Insurance benefits and workload.

Welfare to Work Program

California received two federal Department of Labor Welfare to Work grants, a part of

the federal welfare reform effort. The first was for \$190.4 million and was received in

1997-98. The second was for \$177.2 million and was received in 1999-2000. Each grant requires the state to provide \$1 General Fund for every \$2 federal funds, for a total of \$183.8 million General Fund for the two grants received. The grants will expire in June, 2003 and July, 2004. The matching funds must be provided by that time. The federal share of Welfare to Work funds has been provided to local Workforce Investment Boards. The state matching funds have been provided to the Department of Social Services and distributed to county CalWORKs programs, reducing the TANF and General Funds needed to meet county Employment Services requirements. **In addition, historically county CalWORKs allocations were further reduced on the assumption that a portion of the local Workforce Investment Board funds were available to them.** The CalWORKs allocations are not based on Employment Services requirements, but rather historical receipt of funds. EDD and DSS used the administrative portion of these funds to assist county CalWORKs agencies, local Workforce Investment Boards and other workforce entities at the local level to coordinate their efforts on welfare reform.

Faith-Based Funding

As a part of welfare reform, the federal government approved legislation permitting churches and other faith-based organizations to receive federal funds without having to remove the religious content from their programs. The Bush Administration has created a White House Office of Faith-Based and Community Initiatives, charged with the task of strengthening and expanding the role of these organizations and creating a "faith-

friendly” environment where faith-based organizations can “complete equally” to provide government-sponsored services.

To further this agenda President Bush created centers for Faith Based (and Community Based Incentives in six departments: Health and Human Services, Agriculture, Education, Housing and Urban Development, Justice and Labor. **The Governor proposed \$4.0 million in additional funds from the WIA discretionary funds to provide additional funding for the Faith Based Initiative.**

The Legislature last year requested that EDD report by February 1, 2003, on the grants made under this initiative, the extent to which the grants are geographically diverse, and meet the language and cultural requirements of Californians needing employment services. **The report provides information about persons served by first year grantees. The statistics show that participants have many barriers to employment, including limited education, poor work history, substance abuse, limited English, homelessness, and similar barriers.** The report identifies the intensive technical assistance provided to grantees. The report does not constitute an evaluation. The General Accounting Office released a report in January 2002 summarizing research findings on the implementation of charitable choice provisions. They found that at least 19 states have implemented some form of faith-based contracting, or collaborative activities with faith based organizations to remove barriers to procurement. In addition, they found that the literature provides no information to assess the effectiveness of faith based organizations as providers of social services; the issue has not been rigorously examined by the research community.

Questions from committee:

Please update the committee on the status of the reports.

Employment Related Services. The program facilitates a match between employers’ needs and job seekers skills. Services are delivered through California’s One-Stop Career Systems.

- Governor’s Budget replaced \$25.1 million of contingency funds with Reed Act funds for Job Services
 - ***Continuation of Reed Act Funds for the Job Service Program.*** The budget continues \$25.1 million in federal Reed Act funds in 2003-04 for the Job Services Program. In 2002-03, these funds were reduced from EDD’s Contingent Fund and were replaced by Reed Act funds.
 - ***Continuation of Reed Act Funding for Unemployment Insurance Administration.*** The budget appropriates \$15.4 million in Reed Act funds to replace the discontinued Special Reed Act distributions formerly used to augment federal Unemployment Insurance funding.
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EDD's Employment Training Programs.

EDD administers the Employment Training Tax from employers who participate in the Unemployment Insurance system, and uses the funds in performance-based contracts to provide training to unemployed workers in high-wage, high-skill jobs, and to retrain incumbent workers in businesses challenged by out-of-state competition. EDD administers federal Welfare to Work funds from the Department of Labor, providing transitional assistance for recipients of CalWORKs. EDD coordinates the Workforce Investment Act, which provides federal funds for Adult Employment and Training, Youth Activities and Dislocated Workers Employment and Training. The majority of these funds are administered through local Workforce Investment Agencies; up to 15% is reserved for discretionary projects at the statewide level. **Governor's Budget proposes a reduction of \$612,000 and 11.0 personnel years.**

ITEMS FOR DISCUSSION:**Tax Collection and Benefit Payments.**

EDD administers this program to form monetary relief to individuals who undergo periods of unemployment or temporarily disability. This program contains two systems; the Unemployment Insurance (UI) program and the Disability Insurance (DI) program. These systems are based upon insurance principles, with the employer and employee paying tax contributions to funds that provide benefits. The system includes the following activities: collecting taxes, determining benefit eligibility based upon claims, managing caseloads, processing payments to claimants recovering overpayments, and disputes involving claims or tax liabilities.

Data Collection. The budget directs the department to consult with researchers, employers groups, labor organizations and other state agencies on the feasibility of collecting additional data from employers. The department will report to the Legislature by **December 31, 2003**. The department also will assess and report on the capability of and cost of enhancements for the current database system, cost of revising forms and/or questionnaires, personnel costs for collection and inputting the data, and additional time required to collect, input and process the additional data collected.

Questions from subcommittee:

Please update the committee on the department's progress on improving its information technology systems for the purposes of improving tax collection.

Steps taken to improve fraud problem. There have been recent reports in the media regarding payroll and personnel record theft from private employers.

- What impact, **if any**, is this having on the UI fund?
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- What is the Department doing to prevent UI fraud?
- What Changes have been made to improve processing of claims?
- Has fraud increased since UI went to telephone claim filing?

Unemployment Insurance Benefits. Last year, the Legislature approved an increase in unemployment insurance benefits for the first time in ten years. Effective January 1, 2002, the first of four incremental increases boosted the maximum weekly payment from \$230 to \$330. The maximum weekly benefit will rise to \$450 by 2005. The scope and depth of the recession has made estimating UI expenditures difficult. EDD had seen the highest rate of sign-up historically. The changes in the benefit amount have also made clear the extent to which the tax assessment system is also out-of-date, predating changes in the minimum wage and other increases in average wages.

The Governor's budget proposes

- Reduction per section 31.60 of \$17 million and 328.0 personnel years
- \$3.7 million Unemployment Insurance Trust Fund for decreased Unemployment Insurance workload and benefit payments.
- Increase of \$15.4 million Reed Act Funds for federal Unemployment insurance administration funding.
- Replace \$9.3 million of Benefit Audit Funds with Reeds Act Funds to be used for recovery of benefit overpayments.
- Increase of \$487.2 million Unemployment Compensation Disability Fund and 135.6 personnel years for Disability Insurance caseload and workload adjustments.
- Increase of \$10.9 million School Employees Fund for school employee Unemployment Insurance benefits.

Congress passed an economic stimulus bill to restructure the administrative financing of the unemployment insurance system. The proposed changes include:

- Cutting the Federal Unemployment Tax Act (FUTA) payroll tax by 25 percent or \$1 billion in 2005, with additional reductions over the following four years.
 - Shifting administration funding for UI from the Federal government to the states. The administration would give states \$5.4 billion to phase in the new system over five years.
 - Retaining funds to pay federal loans to states that run short of funding to pay UI benefits
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Question from subcommittee:

- How would the federal proposal effect the tax collection program?
- Please update on UI fund solvency.

SB 40 (Alarcón) required EDD to contract with a nonprofit, nonpartisan independent research organization to study the most effective and efficient means of capturing recent employee wages for the purposes of establishing eligibility for UI benefits. The study was to be completed and submitted to the Legislature by December 31, 2002.

- What is the status of the study?
- When will the Legislature Receive the study?

Employment Tax Service Review.

The Tax Accounting System is one of the largest databases in California and houses all employer tax information in the state. The automated system is old and fragile. The department believes that it is time to consider revamping the system. The Employment Tax System Review is poised to move in the budget year from evaluation tasks to development of a recommendation and identification of resources needed to implement the recommendation. The department is to provide a report on project, and the budget anticipates that recommendations will be available by January 1, 2003.

Questions from subcommittee:

- What is the status of this report?
- What are the department's ideas for upgrading the system?

In recent years concerns have been raised to the Legislature about the need to improve the department's data collection methods for the purpose of understanding labor market trends in the state and evaluating the effectiveness of workforce preparation programs. Updating data collection methods as part of the employment tax system review and redesign would enable public officials and researchers to better understand patterns of job distribution, occupational progression within industrial sectors and the flow of workers through regional labor markets.

Supplemental Report language has been drafted to require EDD to report on recommendations to enhance their current data collection capacity to gather data related to the hours worked by an individual; the location of employment; the residence of the employee and whether benefits are provided to the employee. The report should also

include the costs associated with gathering this data, the timeline for implementation and the current and anticipated capacity to collect this and other data. The subcommittee could designate a portion of Reed Act funds, to assure that the resources are available to move to implementation of a recommended revision of the Tax Accounting System.

Supplemental Report Language of the 2002 Budget Act required EDD to consult with researchers, employer groups, labor organizations, and other state agencies on the feasibility of collecting additional data from employers and present a report to the Legislature by December 31, 2002.

Questions from subcommittee:

- What are cost associated with gathering information? Is there a timeline for getting this information?
- What is the status of the report requested through supplemental report language?

Unemployment Insurance and Disability Insurance Call Centers In the late 1990's, California shifted from a system of local offices for the in-person delivery of Unemployment Insurance and Disability Insurance benefits, to use of centralized telephone call centers and mail delivery of benefits. The subcommittee reviewed statistics covering both unemployment and disability systems last year.

That review disclosed that Disability Insurance call centers in particular had high rates of incomplete or abandoned calls; callers that reached a representative waited for nearly 4 minutes to do so. The subcommittee requested a **Supplemental Report from the Department by February 1, 2003**, showing statistics concerning Disability Insurance Call Centers, including 1) calls received daily; 2) disposition of the calls received; 3) average call waiting times; and 4) steps the Department is taking to improve services in the call centers.

- Callers identified lengthy waiting times during busy periods; waiting periods increased last year. In the DI system especially, thousands of caller received busy signals or were asked to call again.
- The Department established goals for call response and waiting time. Legislators have received a growing number of anecdotal complaints that UI call waiting times have increased over the course of the recession.

The Department reports that there has been no improvement to UI call center waiting times. In addition, individuals have expressed concern that newly unemployed or disabled workers may not know about the call centers. Finally, the Department may not

be meeting the requirements of AB 2779, Trailer Bill in 1998, to assure that staff is available to provide information about UI and DI in job search and One-Stop settings. The Department believes that a part of the problem with the UI Call Center system is a technology that is unable to handle the abrupt swings in access requirements caused by the recession.

Questions from subcommittee:

- Please provide an update on audit and steps taken to improve call centers? How is the department dealing with language differences in providing customer service?
- What is the status of improvements to the DI call center system?
- Describe what methods EDD has considered to assure that the newly unemployed or disabled know about the call centers and how to seek and receive assistance.
- Report on whether it is meeting requirements to have staff trained in UI at every EDD service point.
- Describe the technology barriers to adequate service in the UI system.

The subcommittee could designate a portion of Reed Act funds to the call center system to assure that the department has sufficient resources to upgrade the call centers.

Employment Training Panel

Description. The Employment Training Panel (ETP) is funded by the Employment Training Fund. The Employment Training Fund (ETF) generates revenues by receiving 0.1 percent of wages (**cap of \$7 per year per employee**) from the Employment Training Tax levied on California employers' contributions to the unemployment insurance system.

The portion of the fund allocated to ETP is used to provide grants for employment training programs to foster job creation, minimize employers' unemployment costs and meet employers' needs for skilled workers. Training is provided for three purposes: (1) to retain current employees of firms facing out of state competition, (2) to train new hires who are Unemployment Insurance recipients or who have exhausted their UI benefits within the previous 24 months, and (3) to train in areas of high unemployment, with an emphasis in the working poor.

Grants from the ETP are provided to firms or training agencies that design curricula, select trainers, and set standards for successful completion of training. Contracts are

written for two years and cover the expense of administrative support as well as actual training costs. Employers and/or training agencies earn reimbursement once the trainee has been trained, hired or retained in the position for at least 90 days, although progress payments are made throughout the term of the agreement.

The ETP is governed by an 8-member Employment Training Panel (ETP). Seven of the Panel members, who are appointed by the Governor and the Legislature, have backgrounds in business management and employee relations. The eighth member of the Panel is the Secretary of the Trade and Commerce Agency or the Secretary's designee. The ETP concentrates on high-wage, secure employment. **The budget proposes an appropriation of \$67.5 million, a reduction of \$8.4 million from last year's budget.**

For several years, funds have been transferred from the ETF to CalWORKs, as part of the state's Maintenance of Effort for Welfare Reform. The current-year budget appropriated \$30 million for this purpose. This year's budget proposes to transfer \$21.4 million from the fund to CalWORKs. Of this amount \$2.9 million is allocated to EDD for the State and Local Labor Markets Information Program, \$4.8 million is allocated to EDD for collection of the employment training tax, and \$2.9 million is allocated to DIR for administrative support of division of Apprenticeship standards.

Two years ago, the Legislature requested that the ETP target \$15 million to areas of high unemployment. Since that time, the ETP has continued a focus on the "working poor," and has dedicated a minimum of \$15 million to contracts in such areas. These contracts typically target workers who work full time but earn wages less than necessary to support themselves. The contracts provide essential job skills to move ahead, and waivers of the Panel's typical requirements relating to training hours, literacy training and training delivery methods are allowed. The ETP has also undertaken special projects with small businesses, and with industries affected by 9/11. It approves training for nurse workforce, in partnership with WIA funds, where appropriate.

Purpose: The Panel's focus is to ensure that California businesses have trained workers to compete in the ever-changing global economy and that workers are trained to secure high-wage employment. No funds are earned until trainee completes all of the training and employment retention for 90 days.

Governor's Budget: The Governor's budget proposes a reduction of \$8.4 million reducing their budget from \$76 million to \$67.5 million. Fund available to ETP from the ETF have been reduced because of lower interest earnings and diversions of ETF money to other programs.

Questions from committee:

- What is the success rate of new and retrained workers?
 - What is ETP role in the service of small business contracts?
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Workforce Investment Act (WIA):

In 1998, the federal government redesigned federal employment and training programs in the Workforce Investment Act (replacing the former Job Training Partnership Act). The redesign included funding for adults, dislocated workers, youth, Wagner-Peyser funds (used primarily for Job Services), Vocational Rehabilitation Program, and Adult Education and Literacy. EDD administers all of these except Vocational Rehabilitation and Adult Education and Literacy. **The Federal Governments 2004 budget proposal announced combining of the three programs- the WIA Adult program, the WIA Dislocated Worker program and the Employment Services state grants (Wagner-Peyser) into one block grant of \$3.1 billion to states.** This eliminates the Employment Services as a distinct entity.

The rationale for consolidating these programs into a single grant is to increase flexibility and coordination and to reduce duplication and inefficiency that exists with the current multiple funding streams and the Administration cited unexpected balances for WIA programs as the reason for funding changes and proposed to utilize these funds to make up for funding shortfalls.

According to the Department of Labor (DOL) the calculation of the total for the block grant funding amounts for the redesign requested by the President is the same amount of the 2003 and represents significant cuts in funding for these activities, a 5 percent cut for adult programs and more than a 10 percent cut for dislocated worker program.

Questions from subcommittee:

- The President's proposal would fold the Job Services program into a WIA block grant. Can the department explain how the \$112.6 million for Job Services proposed for 2003-04 would be allocated to support labor exchange services?
- What portion is spent for state level services? What portion is devoted for local services?
- What portions of EDD's local job service staff and resources are dedicated to local one-stop career centers? Are there remaining job services office locations? **If so why?**
- What effect will the president's proposal have on WIA funding?
- EDD will report on steps taken to expedite rapid response time for dislocated workers.

Youth Funding

WIA changed the funding for youth programs substantially. While total funds for youth programs increased, the amount going to local WIBs decreased. In addition, the federal law required that youth services re-focus on year-round services for young people. **The President's 2004 budget proposal further defines the Youth Funding by narrowing service only to out-of school youth, currently funding is for both in school and out of school.**

One Stop Career Centers

WIA required that One-Stop systems be established in local communities, to be supervised by local WIBs. There must be at least one physical location in each local Workforce Investment Area. One-Stops provide core job search services to employers and job-seekers. In addition they provide intensive services and training services for individuals with more barriers to job seeking.

One-Stops may include CalWORKs services and other specialized services of benefit to employers and job seekers. EDD has located its job services 444 One-Stops statewide. In December, 2001, EDD released a survey of One-Stops, based on information collected in the spring of 2001. The survey was in response to budget bill language requiring a survey identifying barriers to access. Among other findings, the survey found that the majority of One-Stop operators managed only one to three sites, two-thirds provide outreach to special needs populations, a majority of partners use formal Memoranda of Understanding. One Stops requested cost-sharing activities to support their infrastructure; a system for sharing effective strategies; assistance with universal access; and a standard One-Stop certification process.

- **The Department will summarize the report, and describe plans for continued development of information about the system.**
- **The Department will provide information about when a One-Stop certification process will be available.**

During the Subcommittee's hearing on WIA Oversight, we received testimony on the substantial amount of WIA funding that is being used to provide core services in One-Stops around the state. Moreover, while collaboration at the local level has permitted coordinated services, One-Stop partners have not always been able to bring resources to support the basic infrastructure.

The Department should respond to requests from local WIBs for partner agencies that are state-funded (CalWORKs agencies, the Department of Rehabilitation) to include in their budgets specifics about the amount of resources such entities provide to One-Stop operation.

EDD has worked extensively with the Department of Rehabilitation on issues of universal access for persons with disabilities. Building upon the initial survey of One-Stops, the two Department have developed a small funding source (using discretionary funds) to assist One-Stops with new, expanded or enhanced program access efforts. In addition, the two Departments have provided extensive training for One-Stops in access techniques, and plan to continue these efforts.

The proposed use of budget year discretionary WIA funds included continuation of these access efforts. The next step in the process is development of a self-assessment for One-Stops to determine access deficiencies and begin the process of remedying those deficiencies. A draft self assessment has been developed.

Questions from committee:

- The two departments should describe the universal access activity.
- EDD should identify what is needed to assure that the access analysis is a regular, ongoing monitoring activity.
- What is the status of the requested report due February 2003? (DSS, DOR, EDD)?

WIA Discretionary Funds. As described above, WIA sets aside 15 percent of each of the three funds for use at the state level for discretionary activities. The subcommittee spent considerable time in last year's budget hearings discussing the process for scheduling and describing the use of discretionary funding.

\$2.3 million is used for administration of WIA, including both EDD and CWIB expenditures. Other federally-required activities are budgeted for \$25.5 million budget year. The balance in each year is used for various programs selected by the Administration as a priority.

Questions from subcommittee concerning discretionary funds:

- What is the status of the nurse workforce initiatives?
 - What is the 2003-04 discretionary fund amount and does this amount include 2002-03 carry-over?
 - Has the Governor proposed projects to be funded by the discretionary fund for 2003-04 ?
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7120 CALIFORNIA WORKFORCE INVESTMENT BOARD

The federal Workforce Investment Act of 1998 (P.L. 105-220) (WIA) repealed the Job Training Partnership Act and changed the requirements and system design for federally supported workforce preparation and retention systems nationwide. The new WIA requires a comprehensive performance accountability system for workforce development programs.

WIA also requires the state to establish a California Workforce Investment Board (CWIB) to assist the Governor in restructuring workforce development programs into an integrated workforce investment system that can respond to the employment, training and education needs of its customers. Services are required to be provided through a network of One-Stop Career Centers. There is a federal act that specifies at a minimum, the CWIB is to assist the Governor in certain activities.

The CWIB was established by Executive Order in October 1999 as a 64-member board; the first meeting was held in January 2000. California has not passed enabling legislation for WIA, leaving the state's Job Training Partnership Act statute in place.

The Administration vetoed one effort to create a state WIA statute, desiring to have any statutory changes based upon recommendations made by the CWIB. As required by Federal law, the CWIB developed the Strategic Five-Year Plan for Title I of the WIA, which was approved by the federal Department of Labor in June 2000. That plan identified the California Health and Human Services Agency as the WIA administrative agency, and EDD as the WIA grant recipient.

The state plan described the status of California's development of a One Stop Service Delivery System, along with specific activities to improve workforce development for adults and youth, and performance accountability expectations.

Policy Role of the CWIB

The Legislature asked that the CWIB complete specific activities in the current year, with a report to policy and budget committee by January 1, 2002. The report should include:

- A recommended protocol for policy development and oversight of the WIA, including clear definition of roles for the agency, EDD, and the board. The report should include the status of adoption of the protocol;
- A plan for distributing the protocol among stakeholders, including information on how to seek change;
- Adoption of a recommendation about where California statutes are in conflict with the new WIA requirements, and where new law would be of assistance in redesigning California workforce development system.

The CWIB has not delivered the protocol, plan and recommendations called for in

the report requirement. In the past year, the CWIB has had problems getting a quorum and has passed few action items. CWIB staff has shared a draft staff response to the Legislature's questions, but it is not clear that the staff report has received the endorsement of either the Board or the Administration. **The CWIB reports that it conducted its first annual Strategic Planning Seminar in February, 2002. They anticipate that the Seminar will help the board set priorities and help it develop a strategic plan for the board.** The plan is not likely to include the specific programmatic requests made by the Legislature; rather it is likely to be a plan for the direct activities of the board itself.

- **Question from subcommittee**
- When will the board publish the protocols requested by the Legislature?

7300 Agricultural Labor Relations Board

The Agriculture Labor Relations Board (ALRB) collects secret ballot elections to determine collective bargaining representation in agriculture and for investigating and resolving unfair labor practice disputes. The ALRB is divided into two major programs: (1) Board Administration of the Agricultural labor Relations Act; and (2) General Counsel Administration of the Agricultural Labor Relation Act. Recent legislation, Senate Bill 1156 and Assembly Bill 2596, add the Agricultural Employer-Employee Collective Bargaining and Mediation Law to the Labor Code. The legislation requires the board to mediate certain collective bargaining agreements.

Questions from subcommittee:

- What is ALRB caseload?
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7350 Department of Industrial Relations

The Department of Industrial Relations (DIR) is intended to protect the workforce, improve working conditions, and advance opportunities for profitable employment in California. The department's major areas of responsibility include labor law, workplace safety and health, apprenticeship training, workers' compensation, statistics and research and mediation and conciliation.

Summary of Expenditures				
(dollars in thousands)	2002-03	2003-04	\$ Change	% Change
General Fund	\$125,097	\$63,278	-\$61,819	-49%
Special Funds	81,890	77,489	4,401	18
Workers' Compensation	45,689			
Administration Fund		103,702	58,013	127
Total	\$252,676	\$244,469	-\$124,233	-31%

Division of Workers' Compensation (DWC). California's workers compensation system was established by the Legislature in 1913 and provides the exclusive remedy for industrial injuries, irrespective of the fault of the employee or employer. All employers in California, except the state, must secure payment of workers' compensation insurance by purchasing of an insurance policy or by obtaining a certificate for self-insurance from DIR. Injured workers receive medical treatment without cost as well as a variety of benefits to compensate for injuries arising out of and in the course of employment.

The Division of Workers' Compensation (DWC) is the lead state agency that oversees the administration of workers' compensation benefits to approximately 1.5 million Californians who are injured on the job each year. One of DWC's core responsibilities is the administration of California's exclusive judicial system for resolution of work injury claims.

Questions from subcommittee:

- What percentage of workers' compensation claims are outstanding and how does DWC recapture money from EDD?
- What is DWC doing about the high cost of medical treatment and determining the level of permanent disability of injured workers?

Implementation of AB 749. On February 15, 2002, the Governor signed into law a , Assembly Bill 749 (Calderon), Chapter 6, Statutes of 2002. The bill increased workers' compensation benefit levels by specified amounts over a four-year period and thereafter indexes benefits to increases in the State average weekly wage to prevent more erosion of benefits by inflation. In addition, AB 749 makes substantive, technical and clarifying changes to the entire workers' compensation system, many of which are designed to provide cost savings to employers. **DIR seeks a budget augmentation of \$9.3 million to implement the provisions of AB 749.**

The Legislature augmented the department's budget last year to begin the implementation of the bill. Although the Governor vetoed aspects of the augmentations, he did agree to begin implementation. As a result of the veto, certain aspects of the implementation of AB 749 were deferred until 2003-04. Now, however, because the December Revision deferred the start-up of AB 749 in the current year, it is not clear what aspects of the AB 749 mandates can be implemented in the budget year.

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Increase User Fees for Workers' Compensation Program. The budget eliminates General Fund support for the Workers' Compensation Division, for a General Fund savings of \$24.6 million in 2002-03 and \$73.7 million in 2003-04. The General Fund support is replaced with revenue from a fee imposed on employers. To implement this provision, the Administration proposes a statutory law change to increase the fees.

The Administration proposes a significant increase in the fee imposed on employers for the workers' compensation program. The proposal would raise employer costs by \$24 million (half year) in the current year and \$70 million in the budget year. The fee proposal was introduced in the First Extraordinary Session, as SB 10x, but was not taken up when the Senate considered the December Revision.

Question from the committee:

If the fee increase is not approved but the Legislature does not augment the budget with General Fund money, what will the department do to close the \$70 million hole in its workers' compensation division?

- ***Loans for New Programs.*** Effective January 1, 2000, statutory law mandates two new enforcement programs, the amusement ride safety and garment manufacturers regulation programs. The programs are to be funded with industry fees, imposed only after the department promulgates regulations. In order to expedite the programs' start up, the Legislature authorized a General Fund loan to provide cash until the fees were
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collected. The loans were to be repaid when the fees were collected in the current year. A recent Finance Letter notifies the Legislature that the fees will not be imposed until the budget year. It requests that the loan repayment be rescheduled from June 30, 2002 to June 30, 2003. **Division of Occupational Safety (loan repayment)** The department is requesting budget language to extend repayment terms of the General Fund loan for the Permanent Amusement Ride Safety Inspection Program in the amount of \$875,000 for a year, until June 30 2004, due to delays in receipt of program revenues.

- **Division of Labor Standards Enforcement (loan repayment)** The department requests an extension on the payment of a General Fund loan for the Garment Manufacturers Regulation Program. It would delay repaying the General Fund \$1,047,000 until June 30, 2004, due to delays in receipt of program revenues.

Workers' Compensation disaster services workers

Existing law sets forth a program for providing a disaster service workers with workers' compensation benefits. Under the program, the Legislature must annually appropriate the funds for this purpose. The budget proposes to repeal state benefits for disaster service workers, except for the special provision concerning federal benefits.

Division of Labor Standards Enforcement (DLSE)

DLSE monitors, investigates and adjudicates violations of the labor law which cover employer-employee relationships. Specifically, its:

- Bureau of Field Enforcement investigates complaints involving non-wage issues, such as complaints about child labor, workers compensation insurance, meal and rest periods, record keeping. It enforces the prevailing wage laws. It also investigates and resolves employee complaints of discrimination.
- Licensing and registration unit registers garment manufacturers and contractors. The unit also licenses farm labor contractors, talent agents, supervisors and managers of minors in door-to-door sales, and industrial homework firms.
- The legal section presents civil cases, primarily involving issues of unpaid wages, prevailing wage laws, and discrimination.

Case Management. According to the department, "the division has never had an effective case management system." Specifically:

- Management is unable to generate sufficient and timely information to accurately track enforcement actions. The division cannot adequately track all significant events within a case.
 - Enforcement staff are unable to share information among the 19 field offices
 - There is no system for identifying and tracking claims owed the state.
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- There is no way for the public to access the system to monitor cases or track progress on enforcement actions.

Budget Proposal. Last year, the Legislature authorized the department to acquire a case management system, to be financed over three years, at a total cost of about \$5 million. The budget includes the second-year installment of the payments. When approving the three-year financing, the Legislature requested

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